

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 PA-01 PRS-01 H-02 /094 W

----- 123337

R 281853Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2465

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

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DEPARTMENT PASS TREASURY, CEA AND FRB

E.O. 11652: N/A

TAGS: ECON, EFIN, GW

SUBJECT: THE GOVERNMENT'S DM 5.75 BILLION STIMULATION

PROGRAM: COALITION ECONOMIC POLICY DIFFERENCES EMERGING

REF.: BONN 14021

1. SUMMARY: BONN'S NEW DM 5.75 BILLION ECONOMIC  
STIMULATION PROGRAM RECEIVED CABINET APPROVAL. AS

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EXPECTED, THE CONSTRUCTION INDUSTRY WAS THE PRINCIPAL

BENEFICIARY OF WHAT MUST BE CLASSIFIED AS A MODEST, NARROWLY-FOCUSED EFFORT WITH VIRTUALLY NO INTERNATIONAL IMPACT OTHER THAN THE PUBLICITY EFFECT. THE SPD AND FDP, WHILE LARGELY UNITED ON SHORT TERM POLICY, SEEM TO BE DIVERGING A BIT ON MEDIUM TERM POLICY ISSUES, THE FDP BEING FOR BIGGER SPENDING CUTBACKS AND POLICIES MORE FAVORABLE TO BUSINESS-POSITIONS QUITE CLOSE TO THOSE OF SUBSTANTIAL CDU ELEMENTS.

2. THE DM 5.75 BILLION "STIMULATION PORGRAM AGREED ON BY THE CABINET ON AUGUST 27 (SEE REFTEL), WHICH IS DESIGNED PRIMARILY TO AID THE AILING CONSTRUCTION INDUSTRY AND HELP ALLEVIATE UNEMPLOYMENT PARTICULARLY NEXT WINTER, PROVIDES FOR THE FOLLOWING FEDERAL, STATE AND MUNICIPAL OUTLAYS:

	AMOUNTS (DM MILLION)		
PROJECTS	FEDERAL	STATE	MUNICIPAL.
MUNICIPAL INFRASTRUCTURE			
AND CITY REHABILITATION	850	850	750(NOTE)
MODERNIZATION OF DWELLINGS	350	350	-
INTERIM FINANCING OF CON-			
TRACTS WITH BUILDING AND			
LOAN ASSOCIATIONS TO			
FACILITATE EARLY BUILDING			
STARTS	150	150	-
FEDERAL INVESTMENTS	1,200	-	-
THEREOF:TRANSPORTATION (600)	-	-	-
MILITARY IN-			
STALLATIONS (350)	-	-	-
CREATION OF JOBS BY THE			
MUNICIPALITIES FOR			
16,000 UNEMPLOYED	600	-	-
TOTAL	3,150	1,350	750

NOTE: TO BE PARTIALLY FINANCED BY ERP LOANS.

TO BE ADDED TO THE ABOVE DM 5.25 BILLION IS A DM 500 MILLION LOAN FROM ERP (COUNTERPART) FUNDS TO FINANCE LIMITED OFFICIAL USE

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MUNICIPAL OUTLAYS FOR ENVIRONMENTAL PROTECTION.

3. IN ORDER TO ENSURE A QUICK IMPACT ON ECONOMIC ACTIVITY, PARTICULARLY CONSTRUCTION, NEW ORDERS UNDER THE VARIOUS SPENDING SCHEMES ARE TO BE PLACED BEFORE THE YEAR IS OVER, AND COMPLETION IS TO ACCOMPLISHED BY THE END OF 1976.

4. THE PROGRAM IS TO BE FINANCED PRIMARILY FROM  
COUNTERCYCLICAL RESERVES, I.E., DM 2.5 BILLION FROM

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FEDERAL GOVERNMENT RESERVES AND DM 1.4 BILLION FROM  
STATES' RESERVES. THE REST IS TO BE COVERED BY BORROW-  
ING.

5. IN JUSTIFYING THE PROGRAM, FRG SPOKESMAN GRUENEWALD POINTED TO THE CONTINUED WEAKNESS OF THE FRG ECONOMY, SIMULTANEOUSLY REFERRING TO IT AS THE FRG'S CONTRIBUTION TO A COORDINATED ANTI-RECESSIONARY COURSE ON LIMITED OFFICIAL USE

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THE EUROPEAN PLANE.

6. COMMENT:

A. AIMED AS IT IS, SO HEAVILY CONCENTRATED ON THE CONSTRUCTION INDUSTRY, AND BEING OF A RATHER MODEST MAGNITUDE (ONLY 0.5 PERCENT OF GNP), THE NEW PROGRAM IS STIMULATIVE TO A LIMITED EXTENT ONLY. IT WILL HELP IN THE SICKEST OF ALL GERMAN INDUSTRIES, CONSTRUCTION, WHERE CAPACITY UTILIZATION REPORTEDLY STANDS AT 52 PERCENT AND UNEMPLOYMENT AT ABOUT 6 PERCENT (VS. THE COMPARABLE SEASONALLY UNADJUSTED 4.5 PERCENT RATE FOR THE ENTIRE WORKFORCE), AND WHERE, WITH THE WINTER COMING ON, THINGS ARE DUE TO CHANGE FROM BAD TO WORSE. SO, IT WILL LARGELY SERVE ONLY AS A TEMPORARY AND SECTORAL ALLEVIATORY MEASURE. FRG SPOKESMAN GRUENEWALD DESCRIBED IT AS A "PROGRAM TO GET OVER THE WINTER." IT WILL LIKELY NOT DO MUCH TO REDUCE CURRENT UNEMPLOYMENT, BUT RATHER WILL FORESTALL SOME SEASONALLY-INDUCED DISMISSALS THAT OTHERWISE WOULD BE TAKING PLACE IN A FEW MONTHS.

B. THE NEW PROGRAM WILL NOT DO MUCH TOWARD T STIMULATING GERMANY'S DEMAND FOR IMPORTS FROM ITS TRADE PARTNERS. AS SUCH, IT THEREFORE CANNOT OFFER MUCH SOLACE TO GISCARD AND WILSON, ET AL. IT THUS DOESNOT REALLY FIT INTO CHANCELLOR S SCHMIDT'S REPEATED CALLS FOR A COORDINATED EXPANSIONARY POLICY AS BEING THE WAY TO RECOVERY FOR ALL. IT IS A STRICTLY DOMESTIC-ORIENTED POLICY MEASURE THAT WILL HAVE LITTLE IMPACT INTERNATIONALLY OTHER THAN THAT LARGELY ILLUSORY ONE CREATED BY ITS PROMOTERS WHO WOULD LIKE TO SEE OTHER COUNTRIES STIMULATE THEIR ECONOMIES AND THEREBY INCREASE DEMAND FOR GERMAN EXPORTS.

C. ON THE DOMESTIC SIDE, IT HAS IMPRESSED TRADE UNIONISTS AS BEING A LESS THAN SATISFACTORY EFFORT. THEY, ALONG WITH THE LEFT-OF-CENTER SPD POLITICIANS, WOULD HAVE LIKED A LARGER -- PERHAPS TWICE AS LARGE -- MORE COMPREHENSIVE AND LASTING LIMITED OFFICIAL USE

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PROGRAM. SOME WORRY THAT IT IS TOO LITTLE AND TOO LATE. ON THE OTHER HAND, NEITHER THE OPPOSITION, BUSINESS, NOR MOST EDITORIAL COMMENT FAVOR ANY LARGER SHORT TERM PROGRAM. THE FDP IS QUITE CONTENT WITH THE NON-INFLATIONARY NATURE OF THE UNDERTAKING. THEY ARE JOINED IN THIS SENTIMENT BY THE CHANCELLOR AND FINANCE MINISTER APEL, WHO ARE PLAYING A COOL AND CONSERVATIVE GAME ALONG WITH THEIR COALITION PARTNERS.

D. WHILE IN THE SAME BOAT ON THIS SHORT-TERM POLICY ISSUE, THERE ARE BEGINNING TO ARISE IN PUBLIC CERTAIN DIFFERENCES OF OPINION BETWEEN THE SPD AND FDP ON THE MEDIUM TERM POLICIES. THESE RELATE TO GOVERNMENT SPENDING, THE FDP BEING FOR GREATER AND THE SPD FOR LESSER CUTBACKS. THE FDP SEES THE NEED TO CUT BUSINESS TAXATION AS A NECESSARY MEDIUM TERM GOAL. ON THIS THE SPD HAS BEEN EQUIVOCAL, AS WELL IT MIGHT GIVEN ITS SENSITIVITY TO LABOR INTERESTS. A REVERSAL OF OR AT LEAST A HALT IN THE TREND TO AN EVER-LARGER SHARE OF THE PIE FOR LABOR, WHICH THE FDP CONSIDERS ESSENTIAL, IS ANOTHER FRICTION POINT. ON THESE ISSUES THE RIGHT-WING FDP (FRIDERICH, LAMBSDORFF) IS CLOSER TO THE RIGHT-WING AND CENTER CDU (STOLTENBERG, KOHL) POSITION THAN WITH THE MAJORITY IN THE SPD.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COALITION GOVERNMENT, ECONOMIC PROGRAMS, DEVELOPMENT PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 AUG 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** RowellE0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975BONN14111  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750298-0656  
**From:** BONN  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Line Count:** 254  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 BONN 14021  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** RowellE0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 21 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <21 APR 2003 by CunninFX>; APPROVED <08 OCT 2003 by RowellE0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** THE GOVERNMENT'S DM 5.75 BILLION STIMULATION PROGRAM: COALITION ECONOMIC POLICY DIFFERENCES EMERGING  
**TAGS:** ECON, EFIN, GE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006